

## **Major Changes Hit City Legal Services**

*Restructuring Plan Prompts Lawsuit in Bronx*

By Daniel Wise

The New York City legal services program is undergoing a radical restructuring at the prompting of the federal Legal Services Corporation.

The transformation will leave the program, which was formed in 1967 along the model of decentralized school boards under local community control, with a far more centralized structure.

For the last 35 years, the program has had a two-tiered structure, in which a citywide agency, now called Legal Services for New York City (LSNY), has received federal funds that in turn have been distributed to seven different local corporations, which provided the bulk of services in civil legal matters to indigent New Yorkers. LSNY's role has been generally limited to certain administrative functions, though over the years it has come to run two programs of its own.

Under the revised structure, which is expected to be put in place in the early part of next year, LSNY will have a controlling voice in the selection of the boards for the local corporations. In addition, the local corporations are being asked to adopt new certificates of incorporation and bylaws, which some of the groups contend vastly expand LSNY's powers. One program, Bronx Legal Services, was so distressed by the changes that it filed a lawsuit in the Southern District of New York, seeking to block its restructuring. Approximately 140 of the 160 lawyers working in the program are employed by the seven local corporations. The remaining 20 lawyers work either in the LSNY central office or in the two programs it directly runs: one for the elderly and the other for the poor in the Williamsburg and Brighton Beach sections of Brooklyn.

LSNY disperses approximately \$33 million a year, of which \$12 million comes from the federal Legal Services Corporation. Of the \$12 million, 22 percent is earmarked for the LSNY budget and 78 percent is allocated among the seven local corporations, according to LSNY spokeswoman, Edwina Martin.

The Legal Services Corporation insisted upon the changes, according to its spokesman Eric Kleiman because the New York program's structure is "completely anomalous" in that there are "two degrees of separation" between the federal corporation and the programs actually delivering civil legal services.

The change is necessary, he added, to assure "a true oversight mechanism" for the New York City program. As the funding agency, LSNY subcontracted with the local boards to provide legal services, and was left with only the "drastic remedy" of defunding a local program if problems in management or delivery of services were uncovered, he said. Defunding was not a viable remedy, Mr. Kleiman added, because "the only people hurt are those who benefit from the services."

### **Bronx Program's Lawsuit**

However, Walker Thompson, the head of Bronx Legal Services, which filed a lawsuit on Aug. 5 seeking to block the changes, said the restructuring "threatens our ability to be a good legal services program."

The change in corporate structure, he explained, "eviscerates local control by placing power in a distant entity - LSNY - with little need to be accountable to the Bronx community."

Also, he charged that bylaw changes, which LSNY is forcing through its exercise of its power over his program's purse, "expands enormously LSNY's legislative power to tell local programs what they can and cannot do." The changes, he added, further empower LSNY to get involved in the minutiae of running local programs by, for instance, requiring LSNY to approve the expenditure of very small sums of money.

Michael W. Martin, a Fordham University School of Law professor who sits on the LSNY board, however, countered that the changes were narrowly tailored to ensure effective monitoring by LSNY, while still preserving the power of local boards to run their programs. He explained, for instance, that provisions were being written into the new bylaws that would prohibit LSNY from forcing any bylaw changes for two years. These provisions, he said, would preserve forever the rights of local programs to "disassociate" with LSNY.

The core change in corporate structure under the reorganization recasts all seven of the local corporations as membership organizations with LSNY as the sole member. Under New York's not-for-profit corporation law, a non-profit can be structured along the lines of a business corporation by creating a class of members, analogous to a business' shareholders, who run the corporation through their power to select the corporation's board of directors, explained Sean Delaney, one of the lawyers who worked on the restructuring for LSNY.

Businesses use the device to create a wholly owned subsidiary, said Mr. Delaney, executive director of Lawyers' Alliance of New York. Similarly, he said, LSNY will exercise control over the local corporations by being designated as the sole member in each corporation, empowered to choose or discharge board members.

Professor Martin asserted that LSNY "has no plans" under consideration to exercise its powers as the sole corporate member to force any changes on the boards of the local corporations. He also pointed out that LSNY has agreed to bylaw changes that circumscribe its otherwise unlimited powers over the selection and replacement of local board members. For instance, he said, LSNY had agreed to select new members from a slate put together by a local corporation.

But Bronx Legal Services' Mr. Thompson took little comfort from those concessions.

## **The New York Law Journal (NY) – Thursday, August 15, 2002**

Even without the corporate changes, he noted, LSNY has asserted the right to withhold from the local corporations money that it gets on their behalf from the Legal Services Corporation and any other source. For his group, that would mean LSNY can withhold more than 80 percent of its \$4.5 million annual budget if its lawsuit fails. Bronx Legal Services raises about \$450,000 a year through its own fund-raising initiatives, he explained.

Martin Needleman, the executive director of Brooklyn Legal Services Corp. A, said there is wide backing from the other programs for the lawsuit, Bronx Legal Services v. Legal Services for New York City, 02-6199. But he added that many other groups "had gone along [with the reorganization] reluctantly" when faced with the possible loss of most of their budgets.

The five local programs in addition to Bronx Legal Services and Brooklyn Legal Services Corp. A are Bedford Stuyvesant Legal Services, Harlem Legal Services, South Brooklyn Legal Services Corp. B, MFY Legal Services and Queens Legal Services.